

It's not a Labor Shortage, It's a Wage Shortage



Unemployment in Utah is low. Even less urbanized counties, which as a rule show higher jobless rates than their urban counterparts, are experiencing the lowest unemployment rates in years. In March, three counties—all outside the Wasatch Front—registered unemployment rate estimates at or below 3 percent. Even counties which typically tip the unemployment rate scales (such as Garfield and San Juan) have experienced a sharp decline in joblessness. (See graph.)

With such low jobless rates, it's no wonder that employers throughout the state are shouting the labor-shortage cry. To economists, a labor shortage means one thing: employers want to hire more workers at the current wage rates than there are employees willing to work at that rate. Keep in mind that wages are simply the price of labor.

Market Forces

Economists know that in an efficient market, a shortage is brought back into balance or equilibrium by market forces. In the case of the labor market, a shortage should increase wages until more workers enter the job market, or the employer can no longer earn enough revenue from the employee's work to offer that position. Either way, the shortage disappears. In Washington County, where labor has been tight for several years, there has definitely been upward pressure on wages.


Our recent experience with Hurricane Katrina and price of gasoline illustrates this phenomenon. When a portion of the country's gasoline supply was disrupted (or the gasoline market was tight)

what happened? Gasoline prices spiked—but except in very limited areas and in the very short-term, there were no shortages.

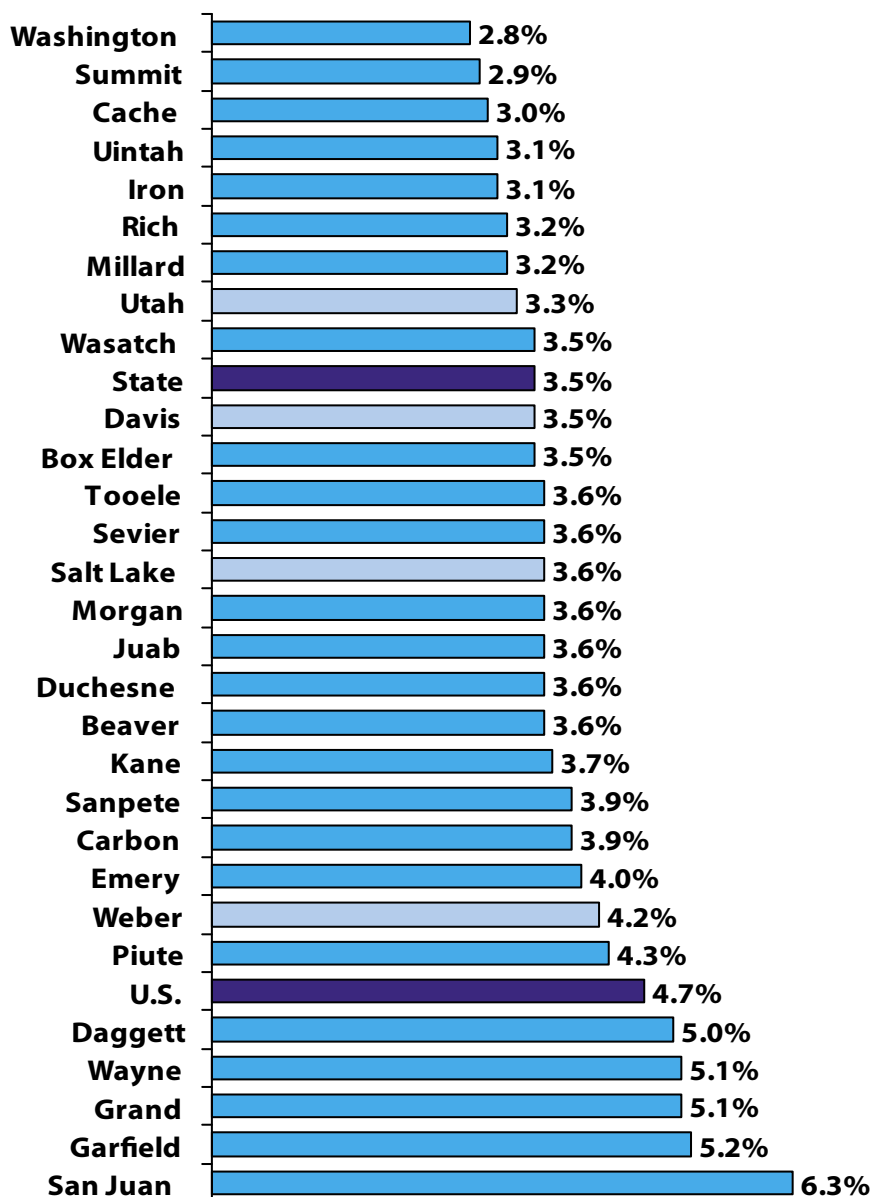
high-flying firm comes to town and offers to pay its construction workers \$500 an hour. Would they have problems finding employees? I don't think so. (I just might be the first applicant in line.)

Show Me the Money

Here's an exaggerated example of why higher wages eliminate a labor shortage. Suppose you live in a town where there is a supposed labor shortage of construction workers at \$10 an hour. But, some

Here's another perspective. If I am only able or willing to pay \$50 for a pair of shoes that costs \$85, it doesn't mean there's a shortage of shoes. The same is true in the labor market. It's a wage shortage, not a labor shortage. 

April 2006 Seasonally Adjusted Unemployment Rates



Source: Utah Department of Workforce Services.

did you know?

- Beaver County residents hope to build a new 25-bed, \$8-million Milford Valley Memorial Hospital in Milford over the next year. *The Deseret News*
- Sanpete County officials are pushing for a new, \$12-million, 128-bed facility to replace their current 44-bed jail. *The Salt Lake Tribune*
- Oil production in Utah reached its highest level last year since 1998, largely because of an upsurge in activity in Sevier County. *The Salt Lake Tribune*
- Glass manufacturer, Viracon, has started construction in St. George on a \$25-million manufacturing plant. *The Salt Lake Tribune*